

**STATE RETIREMENT SYSTEM**  
**FY 2000 BUDGET REVIEW**  
**OFFICE OF THE LEGISLATIVE FISCAL ANALYST**  
**(January 27, 1999)**

The 1996 Legislature passed House Bill 156, now Utah Code 49-1-201 through 204. Passage of this bill clarified the independent status of the Utah State Retirement Office. While legislative examination and comment on the budget should continue, actual voting on the budget and inclusion in an Appropriation Act is not required.

The Utah State Retirement Office is an independent state agency, similar to other independent state agencies such as Workers Compensation and the Utah Housing Finance Agency, which are reviewed by appropriation subcommittees.

**Retirement Office**  
**(Administration)**

**Budget History**

The following chart reflects a five year budget history, the FY 1999 budget, the proposed FY 2000 budget. Utah Retirement Systems receives no direct appropriation.

	<b>FY 1994</b>	<b>FY 1995</b>	<b>FY 1996</b>	<b>FY 1997</b>	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>
<b>Programs</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Budget</b>	<b>Budget</b>
Support Services	\$6,603,600	\$6,758,200	\$7,116,900	\$8,230,400	\$8,917,200	\$9,768,300	\$9,926,800
Investments	11,082,900	12,885,100	13,791,200	13,921,700	18,554,900	21,286,700	23,333,600
Benefit Services	1,211,100	1,454,300	1,948,900	2,180,500	1,985,400	2,580,100	2,620,500
<b>Total</b>	<b>\$18,897,600</b>	<b>\$21,097,600</b>	<b>\$22,857,000</b>	<b>\$24,332,600</b>	<b>\$29,457,500</b>	<b>\$33,635,100</b>	<b>\$35,880,900</b>
Percent inc(dec)	17.07%	11.64%	8.34%	6.46%	21.06%	14.18%	6.68%
<b>Expenditures</b>							
Personal Services	\$5,480,800	\$5,924,000	\$5,978,500	\$6,569,200	\$7,142,400	\$7,963,500	\$7,999,600
Travel	101,300	97,600	91,100	111,400	111,000	138,100	139,400
Current Expense	12,530,400	14,395,900	15,648,400	15,850,600	20,849,100	24,060,900	26,217,500
Data Processing	311,400	164,600	567,600	597,600	929,800	900,100	927,700
DP Capital Outlay			495,400	1,157,500	386,000	442,500	472,700
Capital Outlay	473,700	515,500	76,000	46,300	39,200	130,000	124,000
<b>Total</b>	<b>\$18,897,600</b>	<b>\$21,097,600</b>	<b>\$22,857,000</b>	<b>\$24,332,600</b>	<b>\$29,457,500</b>	<b>\$33,635,100</b>	<b>\$35,880,900</b>
Percent inc(dec)	17.07%	11.64%	8.34%	6.46%	21.06%	14.18%	6.68%
<b>FTE</b>	124.00	122.00	125.00	128.00	128.00	135.00	135.00

<b>Recommendation</b>	The budget is presented for information purposes. No recommendation for funding is made.
<b>Basic Programs</b>	<p>The Retirement Office functions under three major program areas:</p> <p><b>Support Services</b></p> <p>This program includes the basic management, clerical, accounting and data processing staff for the Retirement Office, as well as management of the deferred compensation accounts.</p> <p><b>Investments</b></p> <p>The investments program is responsible for the investment of the Retirement Trust Fund. The current policy of the Retirement board dictates certain allocation targets for asset mix and expected returns. Asset mix is spread between equities, fixed income, and real estate.</p> <p><b>Benefit Services</b></p> <p>Benefit Services provides consultative services to retirees in their retirement program, as well as general consultation for all members of the Retirement System.</p>
<b>Specific Budget Issues</b>	<p><i>Projected budget increases:</i></p> <ul style="list-style-type: none"> <li><b>S</b> Support Services increase is 1.62 percent. This is less than the general rate of inflation.</li> <li><b>S</b> Investments increase is 9.62 percent. This accounts for the majority of the Retirement Systems increase. The primary increases are for investment advisory fees and security handling fees. This area grows in proportion to the portfolio.</li> <li><b>S</b> Benefit Services is increasing 1.57 percent.</li> </ul> <p><i>Compensation issues:</i></p> <ul style="list-style-type: none"> <li><b>S</b> Personal Services increase for FY 2000 is 0.45 percent without the compensation adjustment.</li> <li><b>S</b> The compensation package increase for the Utah Retirement Systems is determined in June of each year.</li> </ul>

**Performance Measures**

Administrative Expense as a percent of the portfolio value has increased slightly for FY 1998. It had been in decline since FY 1994. This indicates a shift in the positive trend relative to workload efficiencies. However, the shift is not significant and comparables with other systems are not available, thus precluding an opinion to the acceptability of this relationship.

Performance Measure	FY 1994 Actual	FY 1995 Actual	FY 1996 Actual	FY 1997 Actual	FY 1998 Actual
<b>Portfolio Market Value *</b>	\$6,140,000,000	\$7,504,000,000	\$8,669,000,000	\$10,166,000,000	\$11,206,000,000
<b>Expenses As % of Value</b>	0.31%	0.28%	0.26%	0.24%	0.26%
<b>Membership **</b>					
Active / Term. Vested	92,374	95,345	97,969	100,474	105,920
Retired	22,786	23,802	24,863	26,190	26,945
<b>Total</b>	<b>115,160</b>	<b>119,147</b>	<b>122,832</b>	<b>126,664</b>	<b>132,865</b>
Percent Inc (Dec)	(17.77%)	3.46%	3.09%	3.12%	4.90%
<b>Admin Cost per member</b>	\$80.99	\$76.01	\$85.53	\$90.47	\$95.31
(w/o Investment Adv.&cap outlay)					
Percent Inc (Dec)	61.16%	(6.15%)	12.53%	5.77%	5.35%
* 1998 Market Value is as of Dec. 30, 1998. It is also noted that budgets are reflected as fiscal year, but market values are based on calendar year.					
** 1998 membership is estimated. Also, non-vested non-contributory members were dropped from statistics beginning in 1994.					

The administrative costs per member listed for FY 2000 reflects the costs of managing the new Defined Contribution plan. This expense is reimbursed by the contributing members. If this is taken out of the equation, the administration cost per member is \$76.49, a significant decrease from the previous year.

**Performance Analysis of the Retirement Trust Fund**

The tables on the following page reflect the Utah Retirement Systems ranking for the last ten years in the Callan Universe of Public Plans. Callan is the general consultant to the Utah Retirement Systems. The Universe of Public Plans tracked by Callan is reasonably large and well diversified according to size. The Callan Public Fund Universe includes 98 plans, approximately half the plans have assets in excess \$1,000,000,000.

Utah Retirement Systems performance results for the six year period reviewed ranks well. The table summarizes the Fund's annual return and its rank relative to other public funds in the universe. All periods measured reflect data as of December 31, 1998, however the last year's numbers are projected.

	<b>Last Year</b>	<b>Last 3 Years</b>	<b>Last 5 Years</b>	<b>Last 10 Years</b>
<b>Fund Return</b>	9.71%	13.52%	12.55%	12.23%
<b>Fund Rank</b>	72	68	58	48

The chart below shows actual returns based from December 31, 1997

	<b>Last Year</b>	<b>Last 3 Years</b>	<b>Last 5 Years</b>	<b>Last 10 Years</b>
<b>Fund Return</b>	15.75%	17.56%	13.62%	12.27%
<b>Fund Rank</b>	85	65	38	48

<b>Annual Rates of Return URS</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
	16.5%	0.1%	22.0%	15.1%	15.8%	9.7%

- The 1998 annual rate of return is projected.
- The basic investment objective is to achieve a total return which exceeds inflation by 4 percent over rolling five year averages. This has been done successfully the last four years.
- The actuarial assumption is that investment earnings will continue to accrue at an annual rate of 8 percent (4 percent inflation and 4 percent real rate of return).

## Group Insurance

### Budget History and Budget Request

The following table provides a five year history of Group Insurance. Additionally, the FY 1999 budget and FY 2000 request are shown:

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Expenditures	Actual	Actual	Actual	Actual	Actual	Budget	Budget
Personal Services	\$2,585,500	\$2,872,000	\$3,172,000	\$2,997,300	\$3,893,200	\$4,853,900	\$4,880,000
Travel	8,300	15,800	15,900	24,100	19,800	49,400	48,900
Current Expense	1,389,400	1,554,300	1,479,400	1,707,400	2,284,900	2,543,800	2,527,900
Data Processing	174,600	148,900	94,200	110,100	30,000	188,500	126,000
DP Capital Outlay		141,700	295,700	345,000	129,000	243,500	175,000
Capital Outlay	84,900	50,700	49,800	164,800	19,500	168,000	168,000
<b>Total</b>	<b>\$4,242,700</b>	<b>\$4,783,400</b>	<b>\$5,107,000</b>	<b>\$5,348,700</b>	<b>\$6,376,400</b>	<b>\$8,047,100</b>	<b>\$7,925,800</b>
Percent inc(dec)	9.93%	12.74%	6.77%	4.73%	19.21%	26.20%	(1.51%)
<b>FTE</b>	<b>73.00</b>	<b>74.50</b>	<b>81.00</b>	<b>81.00</b>	<b>91.00</b>	<b>103</b>	<b>103</b>

### Basic Programs

The Group Insurance Office administers the health and life insurance programs provided for State and local government employees. Duties assigned to the Division include the collection of payroll deductions and leave without pay remittances, claims processing and payment, public relations, and verification of eligibility and enrollments. Starting in Calendar Year 1999, PEHP administers the Flexible Reimbursement Program (FLEX) for the State.

Group Insurance leases building space from the Retirement Office at \$16.50 per square foot.

The Public Employee Health Program is not subject to Utah State Insurance code, but has traditionally followed its provisions.

## Performance Measures

	<b>FY 1994</b>	<b>FY 1995</b>	<b>FY 1996</b>	<b>FY 1997</b>	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Budget</b>	<b>Budget</b>
<b>Total Premiums *</b>	\$131,470,000	\$138,310,000	\$157,408,000	168,764,000	180,746,000	188,000,000	194,000,000
% Admin to Premiums	3.23%	3.46%	3.24%	3.17%	3.53%	4.28%	4.09%
<b>No. of claims processed:*</b>							
Medical / Dental	715,000	799,000	947,000	967,000	974,000	1,021,000	1,070,200
Admin cost per claim	5.93	5.99	5.39	5.53	6.55	7.88	7.41
<b>Membership *</b>							
Medical	91,000	97,000	99,000	105,000	104,000	116,000	123,000
Dental	65,000	73,000	75,000	80,000	93,000	103,000	115,000
<b>Total</b>	<b>156,000</b>	<b>170,000</b>	<b>174,000</b>	<b>185,000</b>	<b>197,000</b>	<b>219,000</b>	<b>238,000</b>
Admin cost per member	\$27.20	\$28.14	\$29.35	\$28.91	\$32.27	\$36.74	\$33.30
Admin cost per member (w/o capital outlay)	\$26.65	\$27.01	\$27.36	\$26.16	\$31.61	\$34.87	\$31.86
* 1999 and 2000 are projected numbers							

- Administrative cost per medical and dental claims have remained relatively flat. Comparables with other plans were not available as of this writing.
- Administrative cost per member has also remained relatively flat, with and without capital outlay included. While it is positive that major increases have not taken place, it might be expected that more economies would be achieved as the number of members increases. It would appear the FY 1999 and FY 2000 budgets do project a slight decrease in this cost.
- The cost of health and dental increases were subsidized for FY 1999 through company reserves. A request has been made for an ongoing increase for health and dental premiums for FY 2000.